WASHINGTON. D.C. – A report released today by the House Committee on Oversight and Government Reform finds that the housing bubble that burst in 2007 and led to a financial crisis can be traced back to federal government intervention in the U.S. housing market. The report's findings are particularly significant and relevant since President Barack Obama's announced financial reform initiatives do not include reforms to address flawed government housing initiatives.

"The spin on the financial crisis by those who favored government efforts to erode lending standards is that the housing bubble didn't cause this recession," said Rep. Darrell Issa the Committee's Ranking Member. "The findings in this report should remind this Congress that ignoring the role of politics and government in causing the housing crisis and the economic collapse while pursing other regulatory reforms will not fix the underlying problem."

Government intervention, according to the report, "created 'affordable' but dangerous lending policies which encouraged lower down payments, looser underwriting standards and higher leverage. Finally, government intervention created a nexus of vested interests – politicians, lenders and lobbyists – who profited from the 'affordable' housing market and acted to kill reforms. In the short run, this government intervention was successful in its stated goal – raising the national homeownership rate."

Key Facts and Conclusions from the report:

- ***Political pressure led to the erosion of responsible lending practices:***

In the early 1990s, Fannie and Freddie began to come under considerable political pressure to lower their underwriting standards, particularly on the size of down payments and the credit quality of borrowers. (p.6)

- ***Lower down payments led to housing prices that outpaced income growth:*** Once government-sponsored efforts to decrease down payments spread to the wider market, home prices became increasingly untethered from any kind of demand limited by borrowers' ability to pay. Instead, borrowers could just make smaller down payments and take on higher debt, allowing home prices to continue their unrestrained rise. Some statistics help illustrate how this occurred. Between 2001 and 2006, median home prices increased by an inflation-adjusted 50 percent, yet at the same time Americans' income failed to keep up. (p. 11)

- ***Members of an "affordable housing" coalition shared profits with political allies to help legitimize their business practices:*** Fannie Mae created and used The Fannie Mae Foundation to spread millions of dollars around to politically-connected organizations like the Congressional Hispanic Caucus Institute. It also hired well-known academics to give an aura of academic rigor to policy positions favorable to Fannie Mae. One paper coauthored by now-Director of the Office of Management and Budget Peter Orszag, concluded that the chance was minimal that the GSEs were not holding sufficient capital to cover their losses in the event of a severe economic shock. The authors suggested that "the risk to the government from a potential default on GSE debt is effectively zero," and that "the expected cost to the government of providing an explicit government guarantee on $1 trillion in GSE debt is just $2 million." (p.7)

- ***The Government Sponsored Enterprises led the way into the housing crisis:*** Fannie Mae and Freddie Mac were leaders in risky mortgage lending. According to an analysis presented to the Committee, between 2002 and 2007, Fannie and Freddie purchased $1.9 trillion of mortgages made to borrowers with credit scores below 660, one of the definitions of "subprime" used by federal banking regulators. This represents over 54% of all such mortgages purchased during those years. (p.24)

Click here for the report.